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Abstract

In this issue:

- Restructuring support measures in focus: Public employment incentives
- Russian sanctions and company restructuring
- Case in focus: Lloyd's Banking Group (UK)

Keywords

European Union, public employment, sanctions, company restructuring

Comments

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Macroeconomic trends and prospects

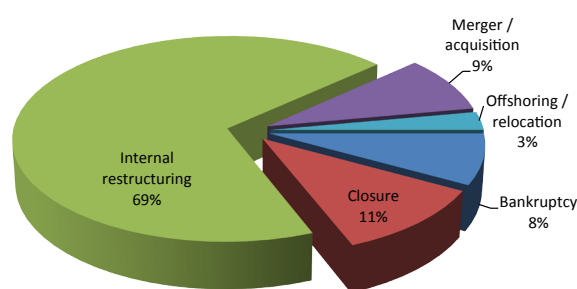
Dramatic recent oil price declines have seen deflation take hold in the EU. General price levels in December 2014 were 0.2% lower than a year earlier. This is further evidence of a tentative European economic recovery that appears to be running out of steam. Growth forecasts for the EU have been trimmed to 1.1% in 2015 after growth failed to reach even 1% in 2014. The main causes have been a slowdown in the main euro zone economies of Germany and France as well as the third recession in Italy since the global crisis (there was negative growth in the second and third quarters of 2014). External factors – notably events in Ukraine crisis and Russian sanctions, as well as civil war in Syria – may have contributed to the slowdown.

On the labour market side, unemployment rates remained stable (10.0% in the EU28, 11.5% in the 19 countries in the euro zone) in the three months to November 2014 after falling for most of the previous year. All recent net employment growth in the EU has, however, been part-time. There were four million more part-time workers in 2014 Q3 than there were in 2008 Q3; in contrast, there were nine million fewer full-time workers.

Job creation and job loss at a glance

The ERM recorded a total of 318 cases of restructuring between 1 October and 31 December 2014. Of these, 191 were cases of announced restructuring involving job loss and 120 were cases involving announced job creation; seven cases involved both job loss and job creation. These cases comprised a total of 76,495 job losses and 38,744 announced job gains. Internal restructuring accounted for 69% of the announced job losses – somewhat less than the previous quarter. The proportion of job losses attributable to closure (11%) substantially increased compared to the percentage reported in the previous quarter (6%). The opposite trend was noted for bankruptcy, going down from 13% in the previous quarter to 8% at the close of the year. Consistent with figures from the previous quarter, announced job losses continued to outweigh those relating to job creation, pointing to a slowdown in the still hesitant recovery of the EU labour market. In terms of geographical distribution, Germany continued to record the greatest number of announced job losses (17,931 jobs), followed by the UK (17,467), France (13,423), Italy (4,549), and Spain (4,107). Meanwhile, the greatest numbers of announced new jobs were in the UK (6,410), followed by Poland (5,670), Romania (5,012), the Czech Republic (4,637) and Ireland (3,095).

2014 Q4	Announced job loss	Announced job gain
EU28	76,495	38,744
EU28 change	22%	-34%
Big increases* by country	Denmark ++; Romania ++; Germany ++; France +	Greece +; Ireland +; Sweden ++
Big increases* by sector	Financial/insurance + Professional services +	Financial/insurance + Public administration++



(Percentages refer to announced job losses.)

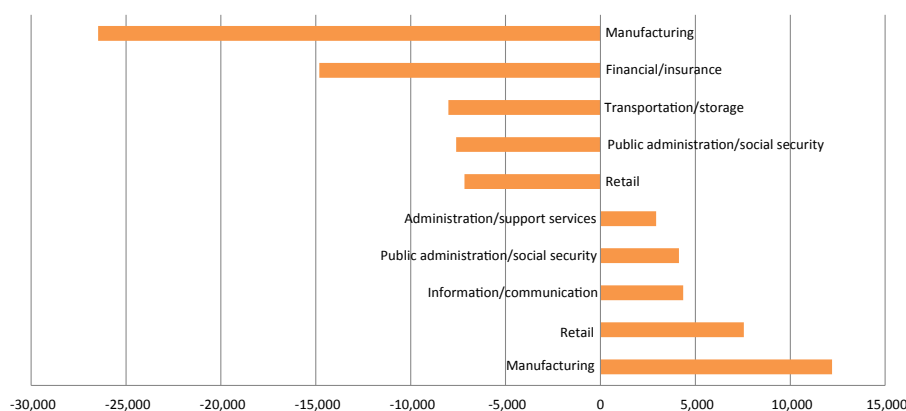
Note: * Comparing the quarter to the four-quarter moving average; ++ = >100%; + = >50%; excludes country or sector if quarter average and 2014 Q4 <1,000 job losses/gains. Source: ERM, October–December 2014.

IN THIS ISSUE

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- **Russian sanctions and company restructuring**
- **Case in focus: Lloyd's Banking Group (UK)**

Sectoral distribution of job losses and gains

The figure below plots the top NACE Rev.2 one-digit sectors in terms of announced job loss and job creation, as reported to the ERM in the last quarter of 2014. Manufacturing experienced the most restructuring activity, accounting for 35% of total announced losses and 31% of total announced gains. The financial and insurance sector accounted for 19% of announced job losses, while a sizeable number of new jobs were announced in retail (19% of total job gains).



ERM-announced job losses/gains, top five sectors (one-digit), 2014 Q4

Source: ERM, October–December 2014

Top 5 cases of job loss and job creation

Date	Company	Job losses	Location	Sector	Type of restructuring
28/10/2014	Lloyds Banking Group	9,000	UK	Financial services	Internal restructuring
15/10/2014	Ministry of Defence	7,500	France	Public administration	Internal restructuring
01/10/2014	Opel	2,835	Germany	Auto manufacture	Closure
25/12/2014	City Link	2,356	UK	Transportation and storage	Bankruptcy
24/10/2014	Karstadt	2,000	Germany	Retail	Internal restructuring

In the last quarter of 2014, the largest-scale restructuring event reported was that of **Lloyds Banking Group**, which announced a new headcount reduction affecting 9,000 jobs across 150 branches over the next three years (see Case in focus on page 3). The second-largest restructuring in the quarter concerns the **French Ministry of Defence**, which announced 7,500 job cuts to be made in 2015 in a bid to reduce its budget deficit. More job losses are envisaged up to 2019 as part of a large cost-cutting programme. The other three restructuring cases of job losses are smaller in scale. German car maker **Opel** is to close its production site in Bochum, with the loss of up to 2,835 jobs. Recently, 99% of the affected employees approved a social collective agreement, which, among other things, provides for a transfer to a transitional company. Another 2,356 jobs have been reported lost in the UK with the collapse of parcel delivery firm **City Link**. The headcount reduction does not include an estimated 1,000 self-employed drivers who were paid on the basis of the number of parcels delivered and would not be entitled to use the government-backed redundancy payments service when lodging their claims. Also sizeable is the restructuring of German retail chain Karstadt, which announced the closure of six stores with the loss of 2,000 jobs.

Date	Company	Job gains	Location	Sector
10/12/2014	Czech public administration	2,688	Czech Republic	Public administration
08/12/2014	Faurecia Seating	1,500	Romania (Valcea)	Manufacture transport equipment
16/10/2014	Volvo Cars	1,300	Sweden	Manufacture transport equipment
09/12/2014	Kromberg and Schubert Romania	1,000	Romania (Nadab)	Manufacture transport equipment
02/11/2014	Alfa-Beta Vassilopoulos	1,000	Greece	Retail

The largest case of job gains recorded in the quarter is that of the Czech public administration, which has announced the largest recruitment of recent years with the creation of 2,688 new jobs in 2015. This job creation forms part of an efficiency drive designed to improve tax collection and process EU payments. In Romania, car part manufacturers Faurecia Seating and Kromberg and Schubert announced the creation of respectively 1,500 and 1,000 new jobs. Another large instance of job creation was announced in Sweden by car maker Volvo Cars. The company, which had launched a cost cutting programme in 2013, is now set to employ 1,300 people in Torslanda, near Gothenburg. In Greece, Belgian-owned supermarket chain Alfa-Beta Vassilopoulos is creating 1,000 jobs with the opening of new stores across the country.

RESTRUCTURING SUPPORT MEASURES IN FOCUS

Public employment incentives

Several Member States have established employment incentives to foster the recruitment of workers in the framework of restructuring.

In Austria, the **Start-up promotion law** targets business transfers (and hence, internal restructuring) as well as start-ups. The law exempts employers from certain administrative costs and incidental wage costs for their employees for a certain period of time.

The French **Tax credit for competitiveness and employment** benefits companies employing workers, amounting to a reduction in companies' social contributions. The law aims at funding companies' efforts in terms of investment, research, innovation, training, recruitment, prospecting new markets and ecological or energy transition; thereby, it also has a clear restructuring objective.

With a similar objective, the Croatian **Subsidy for justifiable costs of creating new jobs related to investment** provides grants for specific investment projects on the condition that new jobs are created by these investments.

The Bulgarian **Micro-credit Guarantee Fund** links access to its loans to the creation of new permanent jobs by the beneficiary company, the number of jobs required depending on the amount of credit applied for. It should also be mentioned that in several countries employment subsidies (or reductions of social contributions) are made available if an employer hires people who have been long-term unemployed (these people may have been made redundant in the framework of restructuring).

More information on public measures, and measures involving the social partners, that support companies and employees in restructuring is available at [Eurofound's restructuring support instruments database](#).

CASE IN FOCUS

Lloyds Banking Group and branch banking

At the end of October 2014, Lloyds Banking Group (UK) announced that it **intended to cut around 9,000 jobs**, or around 10% of its workforce, and reduce the number of its branches by 150 (about 7% of its network of 2,250 branches) over the coming three years. This announcement is the latest in a series of large job cuts at the group, which is reported to have lost up to 43,000 jobs since 2008. The group, in which the UK government retains a 25% stake following support given during the global financial crisis, states that these job cuts and branch closures are largely due to an increasing number of customers switching to online and mobile banking. This has been a common theme of much recent bank restructuring. Over the next three years, the group will invest GBP 1.6 billion (€2.09 billion as at 20 January 2014) in its automated and online offerings. It also envisages upskilling staff to offer advice on higher-margin financial products (such as mortgages).

Despite the latest round of job losses, Lloyds insists that it is performing strongly in financial terms: it reported pre-tax profits of GBP 1.61 billion (€2.1 billion) in the nine months to 30 September 2014.

Lloyds has to date maintained a policy of keeping one branch per town in the UK; it has stated that this will now no longer apply. It is reported, however, to be willing to consider a new commitment to keep open rural branches, according to reports from the BBC. Lloyds has also insisted that it does not want to abandon branch banking.

The trade union Unite has called on the group to commit to not making any compulsory redundancies. The union has warned that the job losses could have 'unknown consequences' for customer service and has called for cuts in executive pay if the group goes ahead with compulsory redundancies and customer service suffers as a consequence.

Sources

Financial Times (2014), **UK banks axes branches in favour of digital model**, 24 October.

BBC News (2014), **Lloyd's Bank confirms 9,000 job losses and branch closures**, 28 October.



SITUATION IN FOCUS

Restructuring arising from Russian sanctions

A number of European firms have reported restructuring job losses as a direct result of EU sanctions against Russia following the annexation of Crimea in March 2014. The annexation resulted in sanctions being imposed on Russian individuals and businesses by the EU and US, among others. Initially, European and US sanctions targeted individuals close to the Kremlin. Later rounds of sanctions implemented in 2014 were more sectoral in nature, aimed primarily at the Russian financial, energy and defence sectors.

Although Western sanctions have had a significant impact, limiting in particular financial support to Russian financial institutions, the Russian retaliation has in turn also had an impact on European firms. In August 2014, Russia imposed an embargo for one year on a wide range of agricultural products and foodstuffs. The impact of the Russian food embargo has been both direct (disrupting existing trade channels, Russia accounting for around 10% of EU food exports) and indirect (lower prices in EU markets as a result of sudden oversupply, especially of such perishables as fruit and dairy products). The trade ban has been felt across the supply chain – in production, logistics and retail. In Finland, for example, **dairy producer Valio** has had to cut 100 jobs at its head office in Helsinki, while in Lithuania, **international logistics company Hofa** has had to reduce its workforce by 210 people (out of a total of 274) who dealt mainly in transporting fruit and vegetables from the EU to Russia. In Finland, **retailing conglomerate Kesko** has had to restructure to cope with the negative economic consequences of the Russian import ban, cutting 227 jobs since November 2014 in its hardware and grocery operations.

The decline in sales has also been strongly felt in the manufacturing sector. In Sweden, **agricultural machinery producer Väderstad** has made 100 employees redundant (Russia and Ukraine previously accounting for 20% of its sales). Similarly, Czech **automotive parts producer Motorpal** has announced that it is to cut 340 positions in its four plants in the Czech Republic, citing the sanctions as the principal cause. In Slovakia, **air-conditioning systems producer ABC Klima** announced the loss in late July 2014 of 100 jobs as it entered bankruptcy. Following the sanctions, the company lost an €8.5 million subcontract for a healthcare facility being developed in Russia.

The loss of business confidence and trade disruptions have thus contributed to business restructuring and job losses, mainly but not exclusively in eastern European countries. The issue has been raised in the European Parliament as MEPs have sought to protect or compensate certain industries with the support of EU funds. They have asked, for instance, whether the European Globalisation Adjustment Fund (EGF) might be used to support companies that have been experiencing difficulties as a result of a loss of sales following the Crimean crisis. At present, the specific mandate of the EGF – to offer support to individuals made redundant as a result of structural changes in global trade or as a result of the global financial crisis – does not foresee interventions as a result of trade disruptions caused by temporary international sanctions. Also, as the European Parliament briefing indicates, the structure of agricultural employment makes it likely that, in the vast majority of cases, the threshold for EGF assistance of 500 cases in one single company would not be met.

Sources:

European External Action Service (2014), **Restrictive measures in force (1.25 MB PDF)**.

European Parliament (2014), **The Russian embargo: impact on the economic and employment situation in the EU (725 KB PDF)**.

About the ERM

The European Restructuring Monitor (ERM) is a unique EU-wide dataset on larger-scale restructuring events. It monitors the announced employment effects of restructuring in the EU28 and Norway. The ERM is updated on a daily basis and data can be used for statistical analysis. It relies on reports in selected media titles (three to five per country). All announcements involving the reduction or creation of at least 100 jobs, or affecting 10% of the workforce in sites employing 250 people or more, are taken into account. Given that the ERM relies on selected media titles, its coverage of restructuring activity in each Member State is indicative and cannot be considered representative. Nevertheless, ERM data do generate a good picture of labour market restructuring, which is broadly consistent with data coming from more representative sources such as the European Union Labour Force Survey. The data for this report were extracted on 7 January 2014. As the ERM continually updates cases in light of new information on recent cases, data reported here may not correspond exactly to later extractions. For previous editions of the quarterly, more details of ERM data collection and other ERM-related publications, please refer to the website at:

<http://eurofound.europa.eu/observatories/emcc/erm>

This issue is based on contributions from Sara Riso, Charlotte Ruitinga, John Hurley, Irene Mandl and Andrea Broughton (ERM EU-level correspondent).

EF/15/05

